



County of Los Angeles
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November 16, 2005

To: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

SACRAMENTO UPDATE

Today, the Legislative Analyst's Office (LAO) released **California's Fiscal Outlook: LAO Projections-- FY 2005-06 through FY 2010-11**. The LAO projects that the year-end reserves for the current year will increase by approximately \$3.9 billion to \$5.2 billion overall. The State budget condition will continue to deteriorate through FY 2007-08 before improving through the end of the forecasting period of FY 2010-11.

Over the five year forecast period, the LAO anticipates that, under existing law, State budget expenditures will continue to exceed revenues absent further corrective actions. In FY 2006-07 this shortfall is now anticipated to be \$4 billion. This is an improvement of \$2 billion over that predicted at the time the 2005 Budget Act was signed. In FY 2007-08 the shortfall is anticipated to grow to \$4.3 billion. However, during the latter part of the forecast period, a healthy increase in anticipated revenues could reduce the shortfall to \$600 million by FY 2010-11.

Since the FY 2005-06 budget was adopted, revenues are anticipated to increase by \$3.9 billion through FY 2005-06 representing an overall 7.8 percent increase in major sources of revenue to the State. This increase is fueled by a 24.7 percent increase in the corporate income tax, a 5.7 percent gain in personal income taxes, and a

4.2 percent increase in sales taxes. On the expenditure side, current year costs are estimated to be slightly lower than assumed in the Budget Act.

The LAO indicates that the budget for FY 2006-07 could be balanced on the basis of a strengthening revenue outlook, the use of the carryover reserve and without the need to use the balance of the deficit financing bonds, make program reductions or utilize revenue enhancements. The LAO strongly cautions, however, that the State continues to face operational shortfalls (expenses exceeding revenues) through the forecast period and that an unanticipated economic slowdown could add billions of dollars to projected shortfalls in future year's budgets.

The LAO recommends three basic budget "building blocks" to consider in constructing the FY 2006-07 budget. They are:

- Continue to take action to reduce or minimize operational shortfalls.
- Match any new or increased program funding with offsetting savings or revenues.
- Avoid using the remaining deficit financing bonds to balance the budget.

The **Fiscal Outlook** is available on the LAO's web site at www.lao.ca.gov.

Housing and Land Use Meetings

Yesterday, representatives from the County Community Development Commission, the Department of Regional Planning, and our Sacramento Advocates attended an advisory group meeting convened by the Business, Transportation and Housing Agency and State Resources Agency to discuss housing, land use, and potential changes to the California Environmental Quality Act. The goal of this effort is to submit legislative recommendations relating to developing needed housing and infrastructure, the efficient use of land and protection of natural resources, and maintenance of productive agricultural land and open space. The agencies and the advisory group plan to conduct a series of meetings with a goal of submitting a set of recommendations in early December to Governor Schwarzenegger.

Redevelopment Hearing

Tomorrow, five Assembly and Senate committees will convene a joint hearing in Sacramento entitled "What Is To Be Done? Legislators Look at Redevelopment Reform." The five committees are the Senate Local Government Committee, the Senate Transportation & Housing Committee, the Assembly Housing & Community Development Committee, the Assembly Local Government Committee, and the Assembly Judiciary Committee. Among the topics to be addressed are the definition of blight, local redevelopment practices, State oversight of redevelopment, litigation

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procedures, and the use of eminent domain. Staff from my office, County Counsel, and the Community Development Commission will be in attendance.

Foster Care Hearing

The first hearing of the newly formed Assembly Select Committee on Foster Care is scheduled for on Monday, November 21, 2005, from 1:00 p.m. to 5:00 p.m. at the Junipero Building, 320 W. 4th Street, Los Angeles. The Select Committee, chaired by Assembly Member Karen Bass, is conducting a series of informational hearings statewide to analyze current foster care policy and develop reform recommendations with a focus on emancipating youth and relative caregivers. David Sanders, Director of the Department of Children and Family Services, has been asked to testify on the local perspective.

We will continue to keep you advised.

DEJ:GK
MAL:JF:SK:kg

cc: Executive Officer, Board of Supervisors
County Counsel
Local 660
All Department Heads
Legislative Strategist
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants